Annual Report 1998

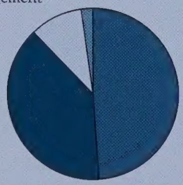
AMERICAN ECO CORPORATION

EPS (After special writeoffs) ($1.44) per share • Debt to Equity Ratio 1.8:1 • Current Ratio 3.4:1

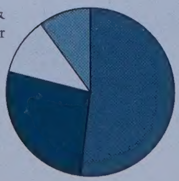
Shareholders' Equity $90 million (16%) • Cash $22 million 16x • Shares Outstanding 22 million +5%

Mission Statement To develop quality relationships with multinational customers, by serving outsourcing needs for industrial maintenance, fabrication and construction management.

Revenue Diversification by Service



Revenue Diversification by Industry



Chempower, Inc., Canton, Ohio • Fabrication, boiler repair and thermal insulation services to power generation and energy industries. Specialized switchgear and bus duct fabrication for utility and mass transportation industries.

Industra Service Corporation, New Westminster, BC, Canada • Industrial engineering, environmental and maintenance support services to the pulp and paper, power generation and petrochemical/ chemical industries.

MM Industra Limited, Dartmouth, Nova Scotia, Canada • Construction and specialty fabrication serving offshore oil and gas, refining and power generation industries.

Separation and Recovery Systems, Inc., Irvine, California • Manufacture, sell and operate SAREX® separation and recovery systems serving energy and power generation industries.

Specialty Management Group/dba (CCG), Dallas, Texas • Maintenance and specialty construction management, integration of design and project development serving the retail and commercial sectors.

The Turner Group, Port Arthur, Texas • Industrial maintenance, construction specialty fabrication serving refining and petrochemical/chemical industries.

United Eco Systems, High Point, North Carolina • Environmental contracting, remediation, containment treatment and recycling services in the Eastern and Southeastern United States.

Main office locations

Contents
• Financial Highlights p1 • Report to Shareholders p2 • Operations Review p4 • Financials p5

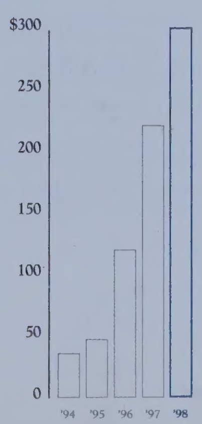
Profile American Eco Corporation is a leading provider of industrial support and specialty fabrication services to the energy, pulp and paper and power generation industries. The Company also provides construction management services to a select group of commercial owners and developers. • American Eco offers its customers a single-source solution for an extensive array of support services such as equipment and facility repair, maintenance, refurbishment, retrofit and expansion. Specialty fabrication services include the construction of decks, well jackets and modules for offshore oil and gas platforms, the fabrication of piping, pressure vessels and other equipment used in process industries, the erection of structural steel support systems and the manufacture of distribution panels, bus ducts and control rooms. The Company also manufactures, sells, installs and operates SAREX® oil filtration and separation systems worldwide. • ***Nasdaq® Symbol: ECGOF/TSE Symbol: ECX/CBOE Symbol: EOQ.***

Comparative Highlights Fiscal Years Ended November 30

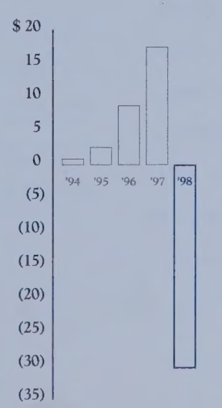
(United States Dollars)

	1994	1995	1996	1997	**1998**
Income Statement					
Revenue	$34,991,000	$46,684,000	$119,529,000	$220,478,000	**$299,789,000**
Net Income (Loss)	903,000	2,852,000	8,763,000	17,435,000	**(30,179,000)**
Basic Earnings (Loss) Per Share Data	0.15	0.40	0.81	1.08	**(1.44)**
Weighted Average Common Shares Outstanding	6,191,296	7,217,005	10,846,516	16,218,034	**20,965,383**
Balance Sheet					
Working Capital	$ 6,441,000	$ 6,639,000	$ 3,280,000	$ 59,907,000	**$ 91,238,000**
Total Assets	22,947,000	31,061,000	104,484,000	221,786,000	**250,383,000**
Long-Term Liabilities	5,298,000	2,271,000	8,093,000	55,952,000	**123,097,000**
Shareholders' Equity	11,299,000	18,736,000	55,043,000	107,099,000	**90,238,000**

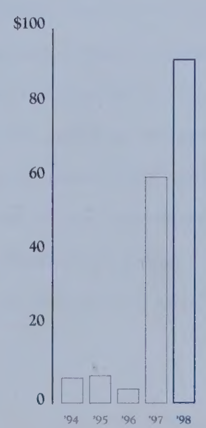
Revenue
(in millions)



Net Income
(in millions)



Working Capital
(in millions)



American Eco Corporation Timeline

1993

The Turner Group

Michael E. McGinnis

J. C. Pennie

1995

Matthew D. Hill

Report to Shareholders

As we enter 1999, we are pleased to report that the state of your Company is sound.

In brief:

- Sales have continued to grow each quarter;
- Working capital increased to $91.2 million;
- We have adequate cash to fund ongoing operations; and
- Opportunities are at record levels in each of our business units.

We ended the year with $21.8 million in cash and a debt-to-equity ratio of 1.8:1 as a result of our placement of a $120.0 million high-yield bond through Jefferies & Company and Nesbitt Burns Securities, Inc. Proceeds from the bond offering were used to repay bank debt and for additional working capital. American Eco has sufficient capacity for financing any potential moderate-sized acquisitions during the last half of 1999.

Regrettably, the decision to engage in the proposed acquisition of Dominion Bridge Corporation (DBC) took a considerable amount of management's time and focus away from day-to-day operations during 1998. While revenues grew 36%, reaching $299.8 million from $220.5 million in 1997, it was a disappointing year. For fiscal 1998, we reported a net loss of $30.2 million, or $1.44 per share, compared to net income of $17.4 million, or $1.08 per share, in 1997.

These results reflect a total of $36.3 million in special charges. These charges included $13.7 million related to the investment and activities associated with the unsuccessful DBC acquisition; $7.0 million in connection with the reduction in the Company's investment in US Industrial Services, Inc.; $4.6 million for a reduction of its share in joint ventures; $3.2 million for severance costs; $2.4 million for debt retirement costs; and other writedowns and charges of $5.4 million. Shareholders' equity decreased slightly during 1998, to $90.2 million, primarily due to the unsuccessful transaction with DBC as well as costs related to the reduction of Selling, General and Administrative (SG&A) expenses in two operating units and our corporate offices. SG&A has been cut 10% since last August.

Our backlog remains strong at $275.0 million at the end of February 1999, up 10% over the same period in 1998.

Management changes As is often the case in trying periods, the problems in 1998 resulted in a number of changes in the Company's management team. While these transitions have been difficult, we believe we now have in place a very focused management group with a proven track record and the knowledge to lead American Eco into the next century.

1996

Separation and Recovery Systems, Inc.

Industra Service Corporation

MM Industra Limited

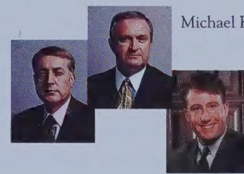
United Eco Systems

1997

Chempower Corporation

1998

Specialty Management Group/dba (CCG)



J. C. Pennie

Michael E. McGinnis

Matthew D. Hill

Michael E. McGinnis has been appointed President and CEO, which will allow him to concentrate more closely on operations. Vice Chairman, J. C. Pennie, who has been with the Company since 1992, has assumed Mr. McGinnis' duties as Chairman and will focus on board and policy matters. We also have in place a team of eight experienced Presidents to lead each of the Company's divisions. In addition, Matthew D. Hill was promoted to Senior Vice President, Operations, for North America, and Besim Halef has been promoted to Vice President, Marketing.

Back to basics In the coming year, American Eco will move forward as a leading North American provider of single-source industrial support, specialty fabrication and construction management services to the energy, pulp and paper, power generation and retail sectors. To accomplish this, we will be focusing on the basics of our past success—low SG&A costs, central cash management, decentralized operating units, expanding customer "outsourcing" revenues and higher margin fabrication contracts. We will also be seeking strategic acquisitions that will enhance services or provide a new geographic location from which to service our customers. Most importantly, any potential acquisitions must meet our criteria for contributions to earnings and revenue growth.

We sincerely appreciate the hard work of our employees and the support of our shareholders. We look forward to returning to the performance in 1999 that you have come to expect from American Eco in previous years.

On behalf of the Board,

J. C. Pennie
Chairman

Michael E. McGinnis
President and CEO

American Eco's reputation as an innovative, single-source provider of services continues to grow as our customers increasingly recognize the advantages of this approach. Today, the Company offers a broad array of value-added outsourcing services and capabilities.

American Eco also has important strengths that have allowed it to achieve a competitive advantage in the industrial support, specialty fabrication and construction management markets. By consistently providing high-quality, cost-effective services in a safe and timely manner, the Company has established long-standing customer relationships that will continue to serve it well in the future.

Industrial Support Services American Eco is an established leader in repair and maintenance, unit turnarounds and retrofits of industrial equipment and facilities. Supported by a full-service engineering team, the Company offers a total solution approach including dismantling and demolition, site remediation, project planning and implementation, instrumentation and electrical system installation and ASME Coded Stamp equipment and vessel repair. Our commitment to excellence has been recognized with ISO 9001 and 9002 Certifications, the international standard for Quality Management Systems.

Specialty Fabrication Services American Eco's staff of 2,126 engineers, designers and support personnel provide a level of technical expertise that is critical to the Company's success in fabricating massive projects for the industries it serves. Specialty fabrication services offered by American Eco include the construction of decks, well jackets and modules for offshore oil and gas platforms; the fabrication of piping, pressure vessels and other equipment used in process industries; the erection of structural steel support systems; and the manufacture of electrical switch gear, power distribution panels, bus ducts and control rooms.

Commercial Construction Services The Company provides construction management services to a national network of retailers with solid development and growth histories. These capabilities include tenant improvement, renovations, additions and design build services. With the growing emphasis on renovations and additions of existing properties, American Eco's clients have shifted their focus to rehabilitation. These clients have embarked on programs to modernize existing facilities to remain competitive and aesthetically pleasing to their customers. The Company's focus is on fast track projects that require attention to detail and comprehensive scheduling methods, along with onsite professional project management.

Demand, backlog remains strong American Eco's efforts in obtaining new contracts during 1998 and for the year ahead have yielded impressive results. In late February 1999, the Company's backlog stood at $275.0 million, including $18.7 million of new upgrade contracts. Among the Company's projects:

- United Eco Systems was awarded a multi-million dollar major removal action project for an international chemical manufacturer. The project, which was completed on-time and on-budget, received a commendation from the client for "raising the standard for environmental cleanup contractors."
- MM Industra Limited shipped the first two wellhead jackets and piles in March 1998 for the Sable Offshore Energy Project. The project is part of a $30.4 million contract, including specialty fabrication for gas processing and production.
- Separation and Recovery Systems, Inc., in a joint venture with SRS-ECO Ltd., received a three-year contract for resource recovery at the Total Refinery near Marseilles, France. The transaction included the sale of SAREX® Process equipment by SRS to the joint venture. SRS was also recognized by Marathon Oil Company's Garyville, Louisiana, refinery for producing significant cost savings as well as achieving the highest standards of environmental compliance. The SRS SAREX® system has successfully recovered 160,000 barrels of oil from waste at the site, saving the refinery more than $3.5 million annually since 1991.
- Industra Service Corporation was awarded a CDN$5.5 million pipe fabrication and thermal insulation contract for Suncor's Oil Sands operations in Fort McMurray, Alberta.
- Chempower, Inc. was awarded a $7.0 million construction services contract for work at three of American Electric Power's stations in the Ohio River Valley.
- The Turner Group added $26.5 million to contract backlog for maintenance services at several Texas-based plants operated by Huntsman Petrochemical Corporation and Olin Corporation.
- Specialty Management Group/dba (CCG) has added several new national contracts, increasing their backlog to $40 million.

Financial Contents

Page	
6	Selected Financial Data
7	Management's Discussion and Analysis of Financial Condition and Results of Operations
13	Consolidated Balance Sheet
14	Consolidated Statement of Operations
15	Consolidated Statement of Shareholders' Equity
16	Consolidated Statement of Changes in Financial Position
17	Notes to Consolidated Financial Statements
38	Market for Registrant's Common Equity and Related Stockholder Matters
39-40	Report of Certified Public Accountants

(In thousands, except per share information)

The Turner Group was acquired in October 1993, Cambridge was acquired in June 1994, the Lake Charles Group was acquired in July 1995, Environmental Evolutions was acquired in January 1996, both SRS and Industra Service were acquired in July 1996, MM Industra was acquired in September 1996, Chempower was acquired in March 1997 and CCG was acquired in September 1997. Eco Environmental and Environmental Evolutions were sold by the Company in August 1997, effective as of August 31, 1997. The statement of operations for the year ended November 30, 1994 reflects six months of operations for Cambridge. The statement of operations for the year ended November 30, 1995 reflects five months of operations for the Lake Charles Group. The statement of operations for the year ended November 30, 1996 reflects eleven months of operations for Environmental Evolutions, six months of operations for United Eco, four months of operations for SRS and Industra Service and one month of operations for MM Industra. The statement of operations for the year ended November 30, 1997 reflects nine months of operations for Chempower, three months of operations for CCG and nine months of operations for Eco Environmental and Environmental Evolutions prior to their sale. The following information should be read in conjunction with the Consolidated Financial Statements and the notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere herein.

	Fiscal Year Ended November 30				
	1998	1997	1996	1995	1994
Statement of Operations Data:					
Total revenue	$299,789	$220,478	$119,529	$46,684	$34,991
Operating income (loss)	(28,881)	20,971	9,701	3,773	1,747
Interest expense	9,506	4,946	1,747	713	681
Pretax income (loss)	(39,885)	19,264	7,954	3,060	1,066
Net income (loss)	(30,179)	17,435	8,763	2,852	903
Net income (loss) per share	$ (1.44)	$ 1.08	$ .81	$ .40	$ .15
Weighted average shares outstanding	20,965	16,218	10,847	7,217	6,191
Balance Sheet Data:					
Working capital	$ 91,238	$ 59,907	$ 3,280	$ 6,639	$ 6,441
Total assets	250,383	211,786	104,484	31,061	22,947
Current debt	630	8,081	22,107	4,497	3,785
Long-term debt	120,689	51,722	6,720	2,100	4,977
Shareholders' equity	90,238	107,099	55,043	18,736	11,299

Overview American Eco is a leading provider of industrial support and specialty fabrication services to principally three industry groups: (i) energy, (ii) pulp and paper and (iii) power generation. The Company also provides construction management services to a select group of commercial owners and developers. The Company offers its customers a single-source solution for a extensive array of support services such as equipment and facility repair, maintenance, refurbishment, retrofit and expansion. Specialty fabrication services offered by the Company include the construction of decks, well jackets and modules for offshore oil and gas platforms, the fabrication of piping, pressure vessels and other equipment used in process industries, the erection of structural steel support systems and the manufacture of electrical switch gear, power distribution panels, bus ducts and control rooms. The Company also manufactures, sells, installs and operates SAREX® oil filtration and separation systems worldwide.

The trend toward greater customer emphasis on outsourcing dictates that support services companies provide an increasing breadth of services. This market trend is the primary tenet of the Company's acquisition strategy, and has precipitated consolidation in the support services and specialty fabrication markets in North America. The Company has grown significantly in the past five years through the acquisition of nine industrial support and specialty fabrication service providers in various complementary geographic regions. The Company had also acquired two environmental remediation companies, which were subsequently sold in August 1997.

A substantial portion of the Company's work is recurring in nature, either through term contracts or long-standing customer relationships. At November 30, 1998, the Company had project backlog of approximately $275 million, substantially all of which it expects to realize within the next twelve months.

Seasonality and Quarterly Fluctuations The Company's revenues from its industrial, environmental and specialty fabrication segments may be affected by the timing of scheduled outages at its industrial customers' facilities and by weather conditions with respect to projects conducted outdoors. The effects of seasonality may be offset by the timing of large individual contracts, particularly if all or a substantial portion of the contracts fall within a one-to two-quarter period. Accordingly, the Company's quarterly results may fluctuate and the results of one fiscal quarter should not be deemed to be representative of the results of any other quarter or for the full fiscal year.

Recognition of Revenues The Company recognizes revenues and profits on contracts using the percentage-of-completion method of accounting. Under the percentage-of-completion method, contract revenues are accrued based upon the percentage that accrued costs to date bear to total estimated costs. As contacts can extend over more than one accounting period, revisions in estimated total costs and profits during the course of work are reflected during the period in which the facts requiring the revisions become know. Losses on contracts are charged to income in the period in which such losses are first determined. The percentage-of-completion method of accounting can result in the recognition of either costs and estimated profits in excess of billings or billings in excess of costs and estimated profits on uncompleted contracts, which are classified as current assets and liabilities, respectively, in the Company's balance sheet. See Note 1 to Consolidated Financial Statements.

Results of Operations

Fiscal 1998 to Fiscal 1997

Revenues The Company's revenues grew 36% to $299.8 million in fiscal 1998 from $220.4 million in fiscal 1997 partly as a result of the recognition of revenues from a joint venture project with MIL Davie Industries, Ltd. and a one-time project involving the construction of a major pipeline project in Ontario, Canada with Steen. Total revenues relating to these projects was $56.0 million. Most operating units generated internal growth in fiscal 1998. MM Industra experienced a 381% increase in revenues over fiscal 1997 primarily due to the inclusion of revenue from the previously mentioned contracts and joint venture in Canada, Industra Service generated a 25.7% increase in revenue from expansion of its Edmonton, Alberta, Canada unit, Chempower generated a 37.6% increase in revenue over fiscal 1997 as fiscal 1998 was the first full reporting year since its acquisition by the Company, and The Turner Group generated a 14.1% increase in revenue from existing operations. CCG had generated a 210% increase in revenue, however, its fiscal 1997 revenues were recognized only from September 1, 1997 to November 30, 1997. Two operating divisions, SRS

and United Eco Systems, each showed a decline in revenue in fiscal 1998 of approximately 50%. The decline relates primarily to work performed by these divisions in fiscal 1997 for MART.

During fiscal 1998, the Company generated approximately 49.4% of its revenues from industrial support services, 38.8% of its revenues from the specialty fabrication business, 9.7% of its revenues from the construction management services, and 2.1% from its environmental remediation services. The Company has provided its services to the energy, pulp and paper, power generation, and retail industries in North America. Approximately 1% of the Company's revenues have been generated from international opportunities.

Huntsman Chemical, TransCanada Pipeline, Petrodrill, Oramet and Kilbourne Engineering together accounted for approximately 40.2% of the Company's total revenues in fiscal 1998 compared to the Company's top six customers in fiscal 1997 which accounted for approximately 31.3% of revenues for such year. TransCanada Pipeline accounted for approximately 16% of the Company's revenues in fiscal 1998 under a joint venture with Steen, a subsidiary of Dominion Bridge, which contract has been completed and is non-recurring, Huntsman Chemical accounted for approximately 8.3% of the fiscal 1998 revenues and Petrodrill accounted for approximately 5.4% of such revenues under a contract which has been terminated (see "Item 1. Business—Other Business Ventures"). None of the other above-listed customers represented more than 5% of the Company's fiscal 1998 revenues. The Company is expanding and diversifying its customer base in an attempt to reduce the Company's dependence in the future on certain key customers.

The Company's industrial support segment generated $148.1 million or 49.4% of the Company's total revenues in fiscal 1998 compared to $147.4 million or 66.9% of the Company's total revenues in fiscal 1997. Management anticipates that this trend should not continue in fiscal 1999 and the Company should experience an increase in dollars and percent of total revenues from its industrial support segment.

The specialty fabrication business segment generated $116.3 million or 38.8% of the Company's total revenues in fiscal 1998 compared to $51.6 million or 23.4% of the Company's total revenues in fiscal 1997. The increase results primarily from the revenues of $56.0 million generated by the Steen and Davie projects. Management anticipates that the specialty fabrication business will continue to grow and provide consistent recurring revenue for the Company by reason of the expansion into Edmonton, Alberta and its presence in the offshore oil and gas industry in Canada.

The revenues generated from the Company's construction management group increased to $29.1 million or 9.7% of the Company's total revenues in fiscal 1998 compared to 4.2% in fiscal 1997. Revenue is generated primarily from the CCG unit based in Dallas, Texas which was acquired as of September 1, 1997. Accordingly, revenues from fiscal 1997 are included only for the fourth fiscal quarter of such year.

The revenues generated from the Company's environmental services segment decreased by 47.9% to $6.3 million in fiscal 1998 from $12.1 million in fiscal 1997, which decrease reflects the sale of Eco Environmental and Environmental Evolutions on August 31, 1997.

Operating Expenses The Company's total operating expenses increased approximately 60.7% to $328.7 million in fiscal 1998 from $199.5 million in fiscal 1997 partly as a result of adding the operations of the joint ventures to MM Industra's revenues and including Chempower and CCG for the full year of fiscal 1998. Expressed as a percentage of total revenues, operating expenses were approximately 109.6% in fiscal 1998 compared to 90.5% in fiscal 1997. Direct costs increased to 84.6% in fiscal 1998 compared to 73.8% in fiscal 1997 as a direct result of joint venture activity. Selling, general and administrative expenses increased to $42.6 million in fiscal 1998 compared to $31.2 million in fiscal 1997. As a percentage of total revenues, selling, general and administrative expenses remained constant at 14.2% in fiscal 1998 and in fiscal 1997. Operating expense also includes the $1.6 million expense incurred to purchase the 49% interest in the Steen Pipeline joint venture not originally owned by the Company and $4.5 million in fees paid related to the Steen pipeline joint venture, which have been categorized as operating expenses associated with the Steen pipeline project due to its treatment as a one-time project, rather than a going concern. SG&A was negatively impacted by certain costs associated with the Company's management changes and $3.0 million in non-cash accounts receivable and other charges

taken in the fourth quarter of fiscal 1998. SG&A also includes an aggregate of $0.4 million in signing bonuses paid to Mr. Fradella and Mr. Posner, who are no longer employed by the Company. The Company is intent on reducing overhead costs at all levels. An aggressive plan was implemented in late 1998 to reduce corporate SG&A by at least $2.5 million in fiscal 1999.

The Company's interest expense on long term debt increased in fiscal 1998 to $9.5 million from $4.9 million and as a percentage of total revenue, interest expense increased to 3.0% compared to 2.2% in fiscal 1997. During fiscal 1998, the Company issued $120 million principal amounts of 9-5/8% Senior Notes and repaid approximately $71.3 million of outstanding indebtedness. At November 30, 1998, the Company's debt to equity ratio was 1.8:1 and its current ratio was 3.4:1. Management will seek to control future operating expenses, but there can be no assurance that the Company's cost control policies will be as effective.

Provision for Income Tax In fiscal 1998 the Company has a loss before provision for recovery of income taxes of $39.9 million. A recovery of income taxes of $9.7 million reduced the Company's net loss to $30.2 million. The recovery includes approximately $2.4 million of net operating loss carryback.

Net Income (Loss) The Company incurred a net loss of $30.2 million or $1.44 per share in fiscal 1998 compared to a profit of $17.4 million or $1.08 per share in fiscal 1997. A tax recovery of $9.7 million in fiscal 1998 compares to a tax provision of $1.8 million in tax expense in fiscal 1997.

Fiscal 1997 Compared to Fiscal 1996

Revenues The Company's revenues grew 84.0% to $220.4 million in fiscal 1997 from $119.5 million in fiscal 1996, primarily as a result of reporting the results of Chempower from February 27, 1997, CCG from September 1, 1997 and a full year of operations for MM Industra, SRS and Industra Services which were acquired in fiscal 1996. These results are partially offset by a decrease in revenues from Lake Charles Construction that generated $49.0 million in revenues in fiscal 1996 from a single contract. In addition, Eco Environmental and Environmental Evolutions were included only through their disposal date of August 31, 1997.

During fiscal 1997, the Company generated approximately 66.9% of its revenues from the provision of industrial support services and 44.7% of its revenues from the provisions of such services to petroleum and petrochemical refining customers. Huntsman Chemical, International Paper, Mobil Oil, American Electric Power, Ashland Oil and Brown & Root together accounted for approximately 31.3% of the Company's total revenues in fiscal 1997, compared to 18.0% of the Company's top six customers in fiscal 1996. Huntsman Chemical accounted for 7.9% of the Company's revenues in fiscal 1997. Although, none of the customers represented more than 10% of the Company's revenues, the loss of any one or more key customers could have a material adverse effect on the Company's results of operations and financial condition. Management believes that the Company's continued efforts to expand and diversify its customer base, in addition to the effects of a full year of operations from Chempower and the operations of Dominion Bridge, assuming completion of such acquisition, will further reduce the Company's dependence on certain key customers.

The Company's industrial support segment generated $147.4 million or 66.9% of the Company's total revenues in fiscal 1997 compared to $94.6 million or 79.0% in fiscal 1996. This 56.0% increase in revenue is primarily the result of reporting Chempower's revenues from February 1997 and the effect of a full year of revenue from Industra and CCG's revenues from September 1, 1997. Management anticipates that the revenues generated by its industrial support service segment will represent a larger percentage of revenues in fiscal 1998 as the Company benefits from a full year of operations from Chempower.

The revenues generated from the Company's environmental services segment decreased 34.6% to $12.1 million in fiscal 1997 from $18.5 million in fiscal 1996. This decrease primarily reflects the sale of Eco Environmental and Environmental Evolutions on August 31, 1997. As a percentage of total revenues the Company's environmental remediation service segment contributed approximately 5.5% of total revenues of fiscal 1997 compared to 15.5% of total revenues in fiscal 1996.

The specialty fabrication business segment generated $51.6 million or 23.4% of the Company's total revenues in fiscal 1997, compared to $6.5 million or 5.4% in fiscal 1996. Management anticipates that the

increase in revenues from the Company's specialty fabrication service segment will continue and this segment will contribute a greater percentage of the Company's total revenues in fiscal 1998 as a result of increased business at MM Industra, SRS and Chempower's Controlled Power Division.

The construction management segment comprised 4.2% of the Company's total revenues in fiscal 1997. Revenues included in this segment were primarily generated by CCG, which was acquired as of September 1, 1997. Accordingly, this segment included revenues only for the fourth quarter of fiscal 1997.

Operating Expenses The Company's total operating expenses increased approximately 81.3% to $199.5 million in fiscal 1997 from $110.1 million in fiscal 1996 primarily as a result of adding the operations of Chempower, from February 27, 1997, CCG from September 1, 1997 and the 1996 acquisitions of MM Industra and Industra Services. Expressed as a percentage of total revenues, operating expenses were approximately 90.5% in fiscal 1997 compared to 92.0% in fiscal 1996. Selling, general and administrative expenses incurred to $31.2 million in fiscal 1997 compared to $20.6 million in fiscal 1996. As a percentage of total revenues, selling, general and administrative expenses decreased to 14.1% in fiscal 1997 compared to 17.2% in fiscal 1996. The decrease is attributable to the Company's plan to control overhead expenses at all levels, which was implemented in fiscal 1996 and continued in fiscal 1997. The Company's interest expense on long-term debt increased to $4.9 million from $1.7 million, and as a percentage of total revenue, interest expense increased to 2.2% compared to 1.5% in fiscal 1996. Depreciation and amortization increased to $5.4 million in fiscal 1997 from $2.2 million in fiscal 1996. As a percentage of total revenues, depreciation and amortization increased to 2.4% in fiscal 1997 from 1.9% in fiscal 1996. Management believes that the Company has been able to contain operating expenses through a program instituted in fiscal 1994 pursuant to which project managers are required to track such cost control indicators as labor productivity and potential project cost overruns.

Operating expenses of the Company's industrial support segment increased to $135.7 million in fiscal 1997 compared to $92.8 million in fiscal 1996. As a percentage of revenues from the industrial support segment, operating expenses decreased to 92.0% in fiscal 1997 compared to 98.2% in fiscal 1996.

Operating expenses of the Company's environmental services segment decreased to $13.6 million in fiscal 1997 compared to $16.6 million in fiscal 1996. As a percentage of revenues from the environmental services segment, operating expenses increased to 111.9% in fiscal 1997 compared to 90.0% in fiscal 1996. Management does not expect this deteriorating trend to continue due to the sale of two environmental operating units as of August 31, 1997.

Operating expenses of the Company's specialty fabrication services segment increased to $40.1 million in fiscal 1997 compared to $4.3 million in fiscal 1996. As a percentage of revenues from the specialty fabrication services segment, operating expenses increased to 82.5% in fiscal 1997 compared to 67.0% in fiscal 1996. This significant increase is due to a full year of operations for MM Industra and nine months of operations for Chempower's Controlled Power Division. Management believes that the specialty fabrication services segment will continue to grow based on the significant backlog of contracts in this segment.

Operating expenses of the Company's construction management services segment includes expenses of CCG for the fourth quarter of fiscal 1997. CCG was acquired as of September 1, 1997.

Provision for Income Tax In fiscal 1997, the Company applied the remaining $3.2 million in net loss carryforwards and began to accrue income taxes. The Company had $1.8 million in tax expenses in fiscal 1997. At November 30, 1997, the Company had no tax loss carryforwards.

Net Income Net income increased approximately 99.0% to $17.4 million, or $1.08 per share, in fiscal 1997 from $8.8 million, or $0.81 per share, in fiscal 1996. A tax recovery of $809,000 contributed approximately 9.2% of the Company's net income in fiscal 1996 compared to a provision of $1.8 million in tax expense in fiscal 1997.

Liquidity and Capital Resources The Company's cash increased from $1.3 million on November 30, 1997 to $21.8 million at November 30, 1998. The significant increase in cash is primarily the result of the May 1998 issuance of $120 million of 9-5/8% ten-year senior notes. The proceeds from the note issue were utilized to retire existing bank debt and notes payable of approximately $71.2 million. The remainder of the proceeds were used for working capital or remain as available cash to the Company. The cash balance as of November 30, 1998 included approximately $7.5 million of restricted cash.

During fiscal year 1998, the Company utilized net cash in operating activities of $3.8 million compared to net cash utilized in operations of $18.9 million for fiscal 1997. In fiscal 1998, the Company had a net loss of $30.2 million which includes the writedown of investments and non-recurring charges of $27.5 million. The change in deferred income taxes of $12.6 million and a build-up of inventory of $5.0 million were partially offset by an increase in accounts payable of $4.2 million and a change in the cost of estimated earnings in excess of billings of $1.9 million.

During fiscal 1998, net cash used in investing activities increased to $23.3 million from $12.5 million in fiscal 1997. Net cash used in investing activities during the current fiscal year consisted primarily of increased investments in joint venture activities, partially offset by the proceeds from payments received on its notes receivable in the current period.

The Company's financing activities in fiscal 1998 provided $48.6 million of net cash compared to $32.4 million in fiscal 1997. The increase in 1998 was primarily due to the May 1998 issuance of $120 million of the senior notes. As permitted by the Indenture under which the senior notes were issued, the Company expects to obtain a line of credit facility of approximately $30 million during the next 60 to 90 days secured by the Company's accounts receivable. The credit facility would be used to assist the Company's working capital needs and help finance the Company's growth strategy through acquisitions.

The Company's cash requirements consist of working capital needs, obligations under its leasing and promissory notes, and funding for potential acquisitions. The Company believes that its current cash position, the expected cash flow from operations, and the anticipated availability of a line of credit should be sufficient throughout the next 12 months to finance its working capital needs, planned capital expenditures, debt service requirements and acquisition strategy.

The accounts receivable at November 30, 1998 were $50.8 million compared to $50.4 million at November 30, 1997 after deducting allowances of $2.4 million and $2.1 million for doubtful accounts at fiscal 1998 and 1997, respectively. The current portion of notes receivable decreased to $5.1 million at November 30, 1998 from $17.8 million at November 30, 1997. This decrease is primarily due to the renegotiation of notes payable in fiscal 1998. Inventory increased to $23.0 million at November 30, 1998 from $18.1 million at November 30, 1997. The increase in inventory is a result of the Company's 36% increase in revenues in fiscal 1998.

Property, plant, and equipment increased to $54.8 million at November 30, 1998 from $33.0 million at November 30, 1997 as a result of the Company's acquisition of the Pictou Shipyard in Pictou, Nova Scotia and additional specialty fabrication equipment needed for its specialty fabrication segment. Accounts payable and accrued liabilities increased to $32.6 million at November 30, 1998 from $28.4 million from November 30, 1997. This increase in accounts payable is primarily due to increased operations and revenues for fiscal 1998.

Information Regarding Forward Looking Statements

This Annual Report on Form 10-K includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Forward looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially. The Company's expectations and beliefs are expressed in good faith and are believed by the Company to have a reasonable basis but there can be no assurance that management's expectations, beliefs or projections will be achieved or accomplished.

In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements: the ability of the Company to continue to expand through acquisitions, the availability of debt or equity capital to fund the Company's expansion program and capital requirements, the ability of the Company to manage its expansion effectively, the reduction in outsourcing by the industrial groups serviced by the Company, the collection and realization of its investments and notes receivable, the economic conditions that could affect demand for the Company's services, the ability of the Company to complete projects profitably and the severe weather conditions that could delay projects.

Impact of the Year 2000 Issue

The Year 2000 Issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Any of the Company's computer programs that have data-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in other routine business activities.

Based on a recent assessment, the Company determined that it will be required to modify or replace significant portions of its software so that its computer systems will properly utilize dates beyond December 31, 1999. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 Issue can be mitigated. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on the operations of the Company.

Based on presently available information, the Company has initiated formal communications with all of its significant suppliers and large customers to determine the extent to which the Company is vulnerable to the failure of these third parties to remediate their own Year 2000 Issues. However, there can be no guarantee that the systems of other companies on which the Company's system rely will be timely converted, or that a failure to convert by another company or a conversion that is incompatible with the Company's systems, would not have material adverse effect on the Company.

The Company will utilize both internal and external resources to reprogram, or replace, and test the software for Year 2000 modifications. The Company plans to complete the Year 2000 project within one year, but no later than April 1999. The total cost of the Year 2000 project is estimated at $1.5 million and is being funded through operating cash flows of the Company. Of the total project cost, approximately $1.0 million is attributable to the purchase of new software, which will be capitalized. The remaining $500,000, which will be expensed as incurred over the next two years, is not expected to have a material effect on the results of operations of the Company.

The costs of the project and the date on which the Company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from such plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties.

(United States Dollars in thousands)

	At November 30 1998	1997
Assets		
Current Assets		
Cash	$ 21,821	$ 1,259
Accounts receivable, trade, less allowance for doubtful accounts of $2,378 in 1998 and $2,078 in 1997, respectively	50,793	50,349
Current portion of notes receivable	5,080	17,757
Costs and estimated earnings in excess of billings	11,202	13,145
Inventory	23,080	18,079
Refundable income taxes	2,419	—
Deferred income tax	9,464	1,133
Prepaid expenses and other current assets	4,427	6,920
Total Current Assets	128,286	108,642
Property, Plant and Equipment, net	54,835	33,023
Other Assets		
Goodwill, net of accumulated amortization of $2,781 in 1998 and $1,592 in 1997 respectively	$ 30,767	30,484
Notes receivable	17,504	28,578
Investments	13,855	9,142
Other assets	5,136	1,917
Total Other Assets	67,262	70,121
Total Assets	$250,383	$211,786
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 32,584	$ 28,400
Notes payable	—	8,904
Current portion of long-term debt	630	8,081
Billings in excess of costs and estimated earnings	3,834	3,350
Total Current Liabilities	37,048	48,735
Long-Term Liabilities		
Senior notes	118,000	—
Long-term debt	2,689	51,722
Deferred income tax liability	1,334	3,144
Other liabilities	1,074	1,086
Total Long-Term Liabilities	123,097	55,952
Total Liabilities	160,145	104,687
Commitments and Contingencies		
Shareholders' Equity		
Share capital	89,854	75,577
Contributed surplus	2,845	2,845
Cumulative foreign exchange	(2,470)	(1,511)
Retained earnings	9	30,188
Total Shareholders' Equity	90,238	107,099
Total Liabilities and Shareholders' Equity	$250,383	$211,786

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Operations For the Three Years Ended November 30, 1998

(United States Dollars in thousands)

	1998	1997	1996
Revenue	$ 299,789	$ 220,478	$ 119,529
Costs and Expenses			
Direct costs of revenue	253,638	162,882	87,203
Selling, general and administrative expenses	42,637	31,243	20,616
Asset impairment and severance charges	27,479	—	—
Depreciation and amortization	4,916	5,382	2,232
Total operating costs	328,670	199,507	110,049
(Loss) Income from Operations	(28,881)	20,971	9,480
Other Income (Expense)			
Interest expense, net	(9,506)	(4,946)	(1,747)
Gain on sale of assets and subsidiaries	—	2,682	—
Foreign exchange income	332	557	221
Loss on early extinguishment of debt	(1,830)	—	—
Total other income (expense)	(11,004)	(1,707)	(1,526)
Income (Loss) before Provision for (Recovery of) Income Taxes	(39,885)	19,264	7,954
Provision for (Recovery of) Income Taxes	(9,706)	1,829	(809)
Net (Loss) Income	$ (30,179)	$ 17,435	$ 8,763
Earnings (loss) per common share			
Basic	$ (1.44)	$ 1.08	$ 0.81
Adjusted basic	$ (1.44)	$ 1.03	$ 0.78
Fully diluted	$ (1.44)	$ 0.90	$ 0.74
Weighted average number of shares used in computing earnings (loss) per common share			
Basic	20,965,383	16,218,034	10,846,516
Adjusted basic	20,965,383	17,667,960	11,435,636
Fully diluted	20,965,383	21,809,562	12,325,043

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Shareholders' Equity For the Three Years Ended November 30, 1998

(United States Dollars in thousands)

	Share Capital		Share Capital Subscribed	Contributed Surplus	Cumulative Foreign Currency	Retained Earnings	Total Shareholders' Equity
	Shares	Amount					
Balance, November 30, 1995	8,859,472	$ 11,803	$ 98	$ 2,845	$ —	$ 3,990	$ 18,736
Conversion of debentures	198,820	1,284					1,284
Issued for acquisitions	4,283,204	27,269					27,269
Issued for cash	594,940	1,743					1,743
Issued for services	281,000	1,753					1,753
Share issue cost		(4,441)					(4,441)
Subscriptions collected			(64)				(64)
Net income						8,763	8,763
Balance, November 30, 1996	14,217,436	39,411	34	2,845	—	12,753	55,043
Conversion of debentures	3,126,366	21,150					21,150
Issued for acquisitions	1,010,913	8,570					8,570
Issued for notes	811,260	7,784					7,784
Issued for cash	376,575	1,613					1,613
Issued for services	66,530	578					578
Share issue cost		(3,563)					(3,563)
Cumulative foreign exchange					(1,511)		(1,511)
Subscriptions collected	20,000	34	(34)				—
Net income						17,435	17,435
Balance, November 30, 1997	19,629,080	75,577	—	2,845	(1,511)	30,188	107,099
Issued for prior acquisitions	138,856	1,526					1,526
Issued for asset acquisitions	1,122,142	9,220					9,220
Issued for cash	320,933	1,470					1,470
Issued for services	157,500	700					700
Issued for warrants	241,667	1,450					1,450
Share issue cost		(89)					(89)
Cumulative foreign exchange					(959)		(959)
Net loss						(30,179)	(30,179)
Balance, November 30, 1998	**21,610,178**	**$89,854**	**$ —**	**$2,845**	**$(2,470)**	**$ 9**	**$ 90,238**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Financial Position For the Three Years Ended November 30, 1998

(United States Dollars in thousands)

	1998	1997	1996
Cash Flows from Operating Activities:			
Net income	$(30,179)	$ 17,435	$ 8,763
Adjustments to reconcile net income to net cash provided by operating activities:			
Asset impairments	27,140	—	—
Loss on early extinguishment of debt	2,400	—	—
Gain on repurchase of senior notes	(570)	—	—
Gain on sale of assets and subsidiaries	—	(2,682)	(2)
Depreciation and amortization	4,916	5,382	2,232
Change in deferred income taxes	(7,287)	1,829	490
Noncash income, net	—	325	—
Change in accounts receivable	(444)	(15,932)	(1,823)
Change in refundable income taxes	(2,419)	—	—
Change in notes receivable	3,549	(14,000)	—
Change in costs and estimated earnings in excess of billings	1,943	(7,824)	(363)
Change in inventory	(5,001)	106	(2,511)
Change in prepaid expenses	(465)	1,424	(748)
Change in other assets	(2,046)	—	—
Change in accounts payable	4,185	(4,523)	(2,312)
Change in billings in excess of costs and estimated earnings	484	(458)	34
Change in other liabilities	(12)	—	—
Net cash (used in) provided by operating activities	(3,806)	(18,918)	3,752
Cash Flows from Investing Activities:			
Capital expenditures	(11,794)	(3,134)	(4,803)
Proceeds from sale of equipment	—	3,448	53
Acquisition of business, net of cash acquired	—	(10,493)	(568)
Proceeds from notes receivables	8,775	996	3,257
Disbursements for notes receivables	(3,820)	(2,094)	(8,350)
Increase in investment	(16,450)	(1,277)	(6,156)
Net cash used in investing activities	(23,289)	(12,554)	(16,567)
Cash Flows from Financing Activities:			
Proceeds from senior notes	116,139	—	—
Proceeds from notes payable	5,700	33,500	14,920
Proceeds from long-term debt	498	58,500	428
Principal payments on notes payable	(14,604)	(53,196)	(7,412)
Principal payments on long-term debt	(59,068)	(7,607)	(1,015)
Proceeds from sales/leaseback	—	4,000	—
Repurchase of senior notes	(1,430)	—	—
Debt issuance costs	—	(1,917)	—
Stock issuance costs	(89)	(2,479)	—
Issuance of common stock	1,470	1,613	5,506
Net cash provided by financing activities	48,616	32,414	12,234
Effect of Foreign Exchange Fluctuations on Cash	(959)	—	—
Net Increase (Decrease) in Cash	20,562	942	(581)
Cash at Beginning of Year	1,259	317	898
Cash at End of Year	$ 21,821	$ 1,259	$ 317
Supplemental Disclosures of Cash Flow Information			
Cash paid during the years for:			
Interest	$ 9,548	$ 4,718	$ 1,614
Income taxes	$ 1,810	$ 281	$ —

The accompanying notes are an integral part of these consolidated financial statements.

American Eco Corporation and its wholly-owned subsidiaries ("the Company" or "AEC") provide industrial services, environmental services and specialty manufacturing to the petrochemical, refining, forest products and offshore fabrication industries. The Company also provides construction management services to a select group of commercial owners and developers.

1. Basis of Presentation and Summary of Significant Accounting Policies

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The differences between Canadian and United States GAAP are described in Note 18.

The accompanying consolidated financial statements include the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Revenue Recognition The Company recognizes revenues and profits on fixed price contracts using the percentage-of-completion method. Under the percentage-of-completion method, contract revenues are accrued based upon the percentage that accrued costs to date bear to total estimated costs. As contracts can extend over more than one accounting period, revisions in estimated total costs and profits during the course of work are reflected during the period in which the facts requiring the revisions become known. Losses on contracts are charged to income in the period in which such losses are first determined.

Inventory Inventory is valued on the lower of cost or market method, with cost determined on the first-in, first-out method.

Property, Plant and Equipment Property and equipment are stated at cost. Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to earnings as incurred. When property and equipment are retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in earnings. Depreciation and amortization are provided over the estimated useful lives of the respective assets using the straight-line method over the following periods based on their estimated useful lives:

Goodwill The cost in excess of the fair value of the net assets of businesses acquired at their respective acquisition dates are amortized on a straight-line basis over 40 years. The Company regularly assesses the carrying value in order to determine whether an impairment has occurred, taking into account both historical and forecasted results of operations.

Income Taxes Effective November 1, 1998, the Company changed its method of accounting for income taxes to CICA 3465, "Income Taxes." Under CICA 3465, deferred future income taxes are provided on an asset and liability method whereby deferred future income tax assets are recognized for deductible temporary differences and operating loss or tax credit carryforwards, and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Deferred future income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred future income tax asset will be realized.

Previously, income taxes were provided on a tax allocation basis whereby the provision was based on accounting income and deferred income taxes resulted from temporary differences which arose between accounting income and taxable income.

Other Assets Included in other assets is approximately \$4.5 million of debt issuance costs which are being amortized over the term of the debt (10 years).

Per Share Data Basic earnings (loss) per share has been calculated on the basis of net earnings for the year divided by the weighted average number of common shares outstanding during the period. Adjusted basic earnings (loss) per share has been calculated assuming the actual debt conversion occurring during the year had taken place at the beginning of the year, or at the date of issuance if issued during the year.

Fully diluted earnings (loss) per share additionally assumes all options and warrants have been exercised at the later of the beginning of the fiscal period or the option issue date. For fiscal year 1998, 1,526,000 options and 3,141,000 warrants have been excluded as their impact would have been anti-dilutive.

Translation of Financial Statements into United States Dollars The consolidated financial statements are expressed in United States dollars using foreign currency translation procedures established by the Canadian Institute of Chartered Accountants.

For self-sustaining operations, the assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. The resulting gains and losses are accumulated in a separate component of shareholders' equity. Revenues and expenses are translated at average exchange rates prevailing during the period. For integrated purposes current assets, current liabilities and long-term debt are translated into United States dollars using year end rates of exchange; all other assets and liabilities are translated at applicable historical rates of exchange. Revenues, expenses and certain costs are translated at annual average exchange rates except for inventory, depreciation and amortization which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life are deferred and amortized on a straight-line basis over the life of the item.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications Certain amounts from prior years have been reclassified to conform to the current year's presentation.

2. Business Combinations

1997

Effective February 28, 1997, the Company acquired all of the outstanding common stock of Chempower, Inc. ("Chempower"). All of the stockholders of Chempower, other than two principal stockholders (the "Principal Stockholders") received $6.20 in cash for each of their Chempower shares. The Principal Stockholders received a portion of their consideration in cash and the balance was represented by a $15.9 million promissory note paid in August 1997. Based upon a total of approximately 7.6 million Chempower shares outstanding, the total acquisition cost was approximately $50 million, including acquisition costs of approximately $3 million. The acquisition was partially funded by a placement by the Company of $15 million, 9.5%, 10 year Convertible Debentures. Concurrent with the Chempower acquisition, the Company entered into installment purchase agreements with Holiday Properties, a general partnership owned by the Principal Stockholders. These agreements provided for the acquisition of three parcels of real property which had been leased to Chempower. The aggregate purchase price for the three properties amounted to $4.5 million, of which $.5 million was paid on February 28, 1997. The purchase price and expenses associated with the acquisition exceed the fair value of net assets acquired by approximately $12 million.

Effective September 1, 1997, the Company acquired all of the outstanding common stock of Specialty Management Group Inc. d/b/a/ CCG Commercial Construction Group ("CCG"), in exchange for 265,000 shares of Company common stock with a fair market value of approximately $2.6 million. The aggregate purchase price and expenses associated with the acquisition exceed the fair value of net assets acquired by approximately $3.6 million.

1996

Effective January 1, 1996, the Company acquired all of the outstanding common stock of Environmental Evolutions, Inc. ("Environmental Evolutions") in exchange for 400,000 shares of Company common stock with a fair market value of $2.4 million. The purchase price and expenses associated with the acquisition exceeded the fair value of net assets by approximately $3.3 million and has been included in goodwill. Pro forma results were not material to the Company's financial position or results of operations. See Note 4 to Consolidated Financial Statements.

Effective May 31, 1996, the Company acquired substantially all the assets and assumed certain liabilities of United Eco Systems, Inc. ("United Eco"). The purchase price consisted of 315,000 shares of Company common stock with a fair market value of $2.5 million. The purchase price and expenses associated with the acquisition exceeded the fair market value of net assets acquired by approximately $2.8 million and has been included in goodwill. Pro forma results were not material to the Company's financial position or results of operations.

Effective July 1, 1996, the Company acquired all of the outstanding common stock of Separation and Recovery Systems, Inc. ("SRS"). The purchase price consisted primarily of 753,634 shares of the Company common stock with a fair market value of $5.7 million, which approximated the book value of SRS.

Effective July 22, 1996, the Company acquired all of the outstanding common stock of Industra Service Corporation ("Industra"). AEC exchanged 0.425 common shares for each common share of Industra, or 1,647,459 shares of AEC common shares. The purchase price and expenses associated with the acquisition exceeded the fair value of net assets of the business acquired by approximately $6.5 million.

All acquisitions have been accounted for using the purchase method; accordingly, the assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess purchase price and related expenses over the fair value of net assets acquired is included in Goodwill. Under the purchase method of accounting, the results of operations are included in the consolidated financial statements from their acquisition dates.

The unaudited pro forma results, assuming the CCG, Chempower, SRS and Industra acquisitions had occurred at December 1, 1996, are as follows:

	1997
Revenues	$245,898
Net income	$ 12,348
Basic earnings per share	$ 0.74

The unaudited pro forma summary is not necessarily indicative either of results of operations that would have occurred had the acquisitions been made at the beginning of the periods presented, or of future results of operations of the combined companies.

3. Disposal of Eco Environmental and Environmental Evolutions

As of August 31, 1997, the Company sold Eco Environmental Inc. ("Eco Environmental") and Environmental Evolutions to Eurostar Interests Ltd. ("Eurostar") in exchange for a note in the amount of $11 million collateralized by a $3.0 million performance bond. Eurostar assigned its interest in Eco Environmental and Environmental Evolutions to UKstar (Canada) Inc. ("UKstar") which in turn transferred its interest in Eco Environmental and Environmental Evolutions to Eco Technologies International Inc. ("ETI"), a Canadian company. The Chairman of the Company serves as Secretary of UKstar and as Chairman of ETI, and a director of the Company is also a director of ETI. The note, with interest at the rate of 10%, was due on August 31, 1998. As a result of the transaction, the Company recorded a gain of approximately $2.5 million.

In August 1998, a portion of the note was paid, and in November 1998, a new note for the balance of $8.0 million, plus interest of 9.75%, is due from UKstar, on September 30, 2000 with interest installments of $227,028 due quarterly commencing February 28, 1999. This note is collaterized by 500,000 common shares of ETI and a $3.0 million performance bond.

4. Impairment, Severance and Other Charges

During 1998, the Company recorded certain impairment, severance and other charges that management believes are not reflective of the Company's core or on-going business activities and are therefore viewed by management as non-recurring. These charges related primarily to certain investments in Dominion Bridge Corporation ("Dominion Bridge") and certain of its subsidiaries all of which filed "notices of intent to submit a proposal" under the Canadian Bankruptcy and Insolvency Act in August 1998 (see Note 6), an impairment in its investment in US Industrial Services Inc. (see Note 7), and severance costs of $3.2 million relating primarily to changes in certain senior management positions both at the corporate offices and at certain subsidiaries. In addition management recorded charges of $4.6 million related to certain single project joint ventures during the fourth quarter which were not anticipated by management or the joint ventures.

5. Notes Receivable

	1998	1997
US Industrial Services, Inc., due August, 1998, maximum borrowings of $20 million, interest at prime plus 2%, uncollateralized. See Note 7 to Consolidated Financial Statements.	$ —	$ 17,876
George E. Phillips Holdings, Ltd., $2.8 million due and paid in January 1998, quarterly payments of $446,166 from February, 1998 through August, 2002, with final payments due in November 2002, interest at 10% collateralized by 50% of the issued and outstanding shares of common stock of Mid Atlantic Recycling Technologies, Inc. ("MART").	11,034	14,000
UKstar, $9.3 million note presented net of unrecognized interest income of $1.3 million, due September 2000, with quarterly interest installments of $227,028, interest at 9.75%, collaterized by 500,000 common shares of ETI and a $3.0 million performance bond.	8,029	11,000
Receivables from joint ventures. See Note 8 to Consolidated Financial Statements.	3,002	1,500
Notes receivable from officers and directors. See Note 15 to Consolidated Financial Statements.	1,213	1,468
Miscellaneous notes receivable	742	491
	24,020	46,335
Less reserve for notes receivable	(1,436)	—
Total notes receivable	22,584	46,335
Current portion	5,080	17,757
Long-term portion	$17,504	$ 28,578

6. Acquisition of Dominion Bridge Corporation

On February 20, 1998, the Company and Dominion Bridge entered into a non-binding Letter of Intent which provided for (a) the purchase of $5.0 million of Dominion Bridge common stock and warrants to purchase Dominion Bridge common stock by the Company, (b) a working capital loan facility of up to $25.0 million to be provided by the Company to Dominion Bridge, (c) the engagement of the Company to provide certain management services to Dominion Bridge and (d) the acquisition by the Company of the business and assets of Dominion Bridge. The purchase of $5.0 million dollars of Dominion Bridge stock was consummated on February 20, 1998, the President and Chief Executive Officer of the Company also became a member of the Board of Directors of Dominion Bridge. On March 23, 1998, the Company announced that it had withdrawn the Letter of Intent and terminated negotiations for any further transactions. The Company subsequently entered into two projects with Davie Industries and Steen Pipeline, subsidiaries of Dominion Bridge, to perform certain contract work in Canada.

The Company subsequently acquired Dominion Bridge's interest in the Steen Pipeline transaction for an additional $2.8 million.

On August 11, 1998, Dominion Bridge filled "notices of intent to submit a proposal" under the Canadian Bankruptcy and Insolvency Act. During the fourth quarter of fiscal 1998, the Company, after reviewing its prospects for recovery of its investments in Dominion Bridge, determined that it was probable that a recovery of its investment would not occur. As a result, during the fourth quarter, the Company recorded a charge of approximately $13.8 million. This amount includes primarily the Company's initial $5.0 million investments in Dominion Bridge, costs associated with the Company's investment in Dominion Bridge and amounts advanced to Dominion Bridge during 1998, primarily relating to the two joint projects with Davie Industries and Steen Pipeline.

During the fourth quarter of 1998, the Company recorded revenues and cost of revenues of $56.0 million and $44.8 million, which relate to work performed in the second and third quarters on the two Dominion Bridge joint projects. In the prior quarters, these amounts had been recorded as a single net amount in revenues.

7. US Industrial Services, Inc. (formerly EIF Holdings, Inc.)

During June 1996, the Company purchased 4,600,000 shares of US Industrial Services, Inc. ("USIS") common stock for $2.8 million. On November 7, 1996, the Company acquired an additional 200,000 shares of USIS common stock through the issuance of 25,000 shares of its common stock, and on November 20, 1996, the Company purchased 4,000,000 shares of USIS in exchange for $70 thousand and 300,000 shares of the Company's common stock. At November 30, 1997, the Company's total investment in USIS was approximately $5.2 million and represented 36% of USIS's total common stock. Additionally during 1996, the Company entered into a Stock Purchase Agreement with USIS whereby the Company had an option to purchase 10,000,000 shares of USIS for $1 million. This option was subject to USIS stockholders increasing the authorized number of common shares. The Company has accounted for its investment in USIS pursuant to the equity method of accounting commencing January 1, 1997.

In February 1996, the Company agreed to loan money to USIS pursuant to a line of credit agreement with a maximum borrowing of $5.2 million. This line of credit was not collateralized and was due on July 31, 1997. Effective July 31, 1997, the line of credit was renewed, extended and modified to increase the maximum borrowing amount to $15 million and extend the maturity to February 18, 1998. On September 30, 1997, the Company increased the maximum borrowing amount to $20 million. This renewal included an option for the Company to convert the entire indebtedness into common shares of USIS at 85% of the average market price of the previous five days, subject to approval of an increase in the number of authorized shares by USIS's stockholders. On February 18, 1998, the Company extended the maturity date of the line of credit to August 18, 1998. As of November 30, 1997, the total receivable from USIS was $17.9 million, which included accrued interest of $1.04 million. The Company received interest income of $0.8 million related to the loan outstanding during 1997.

On November 19, 1997, USIS completed its acquisition of JL Manta, Inc. ("Manta"), an Illinois corporation which provided specialized maintenance services for clients in the industrial, environmental and low-level nuclear sectors. Pursuant to the terms of a Stock Purchase Agreement, USIS acquired all of the issued and outstanding common stock of Manta for consideration of $4.7 million in cash and $2.2 million in convertible promissory notes of USIS, payable in installments with a final payment due on November 18, 2000 (the "Stockholder Notes").

In June 1998, the Company acquired 1,000,000 shares of USIS. This acquisition was made pursuant to a February 1996 Stock Purchase Agreement, and gave effect to a one-for-ten reverse split of the shares in June 1998 and a reincorporation approved by stockholders in May 1998.

Subsequently, the Company held certain promissory notes of USIS consisting of principal and interest in the aggregate of $17.9 million. The notes were reduced by $1 million representing the purchase price for the 1,000,000 shares purchased under the February 1996 Stock Purchase Agreement. The Company sold the remaining portion of the notes to USIS Acquisition, L.L.C. ("UALC"), an unrelated entity, for $5.0 million in cash and a secured promissory note for $12.9 million payable on January 29, 1999. UALC converted the notes into 5,295,858 shares of USIS common stock and secured its promissory note to the Company with a pledge of all acquired shares. In November 1998, UALC advised the Company that UALC would be unable to pay its note at maturity, and the Company took ownership of the pledged shares in discharge of the note. As a result of the transaction, the Company's ownership interest increased from 21% to 82% of the outstanding common stock of USIS at November 30, 1998.

In November 1998, USIS sold the assets of Manta and transferred related liabilities, including the credit facility, to Kenny Industrial Services, L.L.C., for $23.0 million consisting of a combination of cash and notes.

On December 31, 1998, USIS sold the assets of P.W. Stephens Residential Inc. and transferred its liabilities, to American Temporary Sanitation Inc. for $2.4 million consisting of $1.0 million in cash and a five year promissory note for $1.4 million payable quarterly through 2004, together with interest at prime rate plus 2.5% per annum.

Primarily as a result of UALC defaulting on the note payable to the Company and the fees incurred by USIS in their sale of Manta, the Company recognized an impairment in its net investment in USIS of $7 million. USIS is in the process of selling its remaining operating assets and as such the Company's net carrying value approximates the book value of USIS's remaining assets plus the gain recognized on the sale of P.W. Stephens Residential Inc. This total amount of $12.4 million is included in Investments on the Company's consolidated balance sheet.

8. Investment in SRS Joint Ventures

The Company, through its wholly owned subsidiary SRS, participate in three joint ventures with equity interests ranging from 33% to 50%. Each of these joint ventures is involved in operating SRS' waste treatment equipment.

At November 30, 1998, the Company's total investment in these joint ventures was approximately $1.2 million and the Company had receivables from the joint ventures of approximately $1.7 million. During 1998, the Company sold and leased certain equipment to the joint ventures for approximately $2.3 million. During 1997, the Company sold and leased certain equipment to the joint ventures in the amount of approximately $5 million. The Company deferred profit on transactions with the joint ventures to the extent of its ownership interests in the amounts of approximately $.3 million and $1.6 million in 1998 and 1997, respectively.

The results of operations and financial position of these joint ventures are not material to the Company's financial position and results of operations as of November 30, 1998 and 1997.

9. Inventory

	1998	1997
The components of inventory are as follows:		
Raw material	$ 8,388	$ 6,358
Consumable supplies	4,207	3,345
Finished goods	10,485	8,376
	$23,080	$18,079

10. Property, Plant and Equipment

	1998	1997
Property, plant and equipment consists of the following:		
Land	$11,223	$ 5,570
Buildings	20,831	14,140
Fabrication, machinery, mobile and other equipment	27,693	17,356
Furniture and fixtures	2,634	1,978
Buildings and equipment under capital leases	4,448	2,362
Leasehold improvements	1,451	1,389
	68,280	42,795
Accumulated depreciation and amortization	13,445	9,772
	$54,835	$33,023

Depreciation expense for the years ended November 30, 1998, 1997 and 1996 was $3,673, $4,467 and $1,695, respectively.

11. Long-Term Debt including Capital Leases

	1998	1997
Note payable to Union Bank of California, payable $2,386,364 per quarter beginning April, 1998, interest at LIBOR plus 3.25% collateralized by the stock of AEC's subsidiaries, their guarantees and substantially all assets of AEC.	$ —	$52,500
Note payable to Deere Park Capital management, payable interest only until June, 1998 then monthly payments of $83,333 plus interest until final payment in May, 2000, interest at 10%, uncollateralized.	—	5,000
Capital lease obligation to Sunnybank Property Ltd., payable $22,160 monthly with an implicit rate of 11.44% with final payments due October 31, 2018	2,061	—
Notes payable, other	1,258	2,303
	3,319	59,803
Current portion	630	8,081
Long-term portion	$2,689	$51,722

The aggregate principal payments on long-term debt during the years subsequent to November 30, 1998 are: 1999–$630; 2000–$540; 2001–$513; 2002–$395; 2003–$304; thereafter $937.

At November 30, 1997, there was approximately $8,904 of notes payable outstanding. Included in this amount was a payable to Union Bank of California under a revolving credit facility in the amount of $8,500. The maximum borrowings under the credit facility was $12,000, bearing interest at either the prime rate plus 2% or LIBOR plus 3% and was collateralized by substantially all of the assets of the Company. This revolving credit facility was to expire on August 31, 2002. Additionally, the Company had a balance of $397 under a revolving credit facility with Comerica. The maximum borrowings under this facility was $500 and it was collateralized by the assets of CCG. All such amounts were repaid during 1998.

12. Senior Notes

In May 1998, the Company issued $120 million of 9⅝% Senior Notes that mature May 15, 2008. Interest on the Notes is payable semi-annually in arrears on May 15 and November 15 of each year. The Notes are redeemable at the option of the Company in whole or in part, at any time on or after May 15, 2003, at specified redemption prices.

The net proceeds from the issuance of the Notes was $116.1 million. The Company used proceeds of $71.2 million to repay credit facilities, other outstanding indebtedness and accrued interest associated with such indebtedness.

As a result of the refinancing, the Company recorded a $2.4 million charge for the early extinguishment of debt, primarily related to the prepaid financing costs of the bank debt. The Company also recorded an asset of $4.5 million related to prepaid financing costs associated with the Notes. This asset is being amortized over the ten year term of the Notes.

In September 1998, the Company repurchased $2.0 million of Senior Notes on the open market at a discounted price of $1.4 million. The transaction resulted in a gain of $.6 million on the early extinguishment of debt.

13. Lease Agreements

The Company leases equipment and office and warehouse space under operating leases that expire at various times through September 2002. Future minimum payments, by year and in the aggregate, under these operating leases, consisted of the following at November 30:

1999	$1,609
2000	1,332
2001	1,084
2002	828
2003	520
Total minimum lease payment	$5,373

Rent expense for the years ended November 30, 1998, 1997 and 1996 amounted to $1,522; $634 and $538, respectively.

In May 1997, the Company entered into a sales/leaseback transaction with a third party for machinery and equipment. In conjunction with this transaction, the Company recorded a deferred gain of $1.2 million, which is being amortized over the sixty month life of the lease.

14. Costs and Estimated Earnings on Jobs in Progress

	1998	1997
Costs, estimated earnings and billings are summarized as follows:		
Costs incurred on uncompleted jobs	$126,323	$186,518
Estimated earnings	13,993	28,432
	140,316	214,950
Billings to date	132,948	205,155
	$ 7,368	$ 9,795
Included in the accompanying balance sheet under the following captions:		
Costs and estimated earnings in excess of billings	$ 11,202	$ 13,145
Billings in excess of costs and estimated earnings	(3,834)	(3,350)
	$ 7,368	$ 9,795

15. Related Party Transactions

For the years ended November 30, 1998 and 1997, the Company had business with related parties. The details of these transactions and balances owing from and to these parties are as follows:

Pursuant to an agreement between the Company and Windrush Corporation ("Windrush"), dated December 1, 1997, Windrush receives a fee of $10 per month in consideration for services plus fees negotiated on a project-by-project basis for other specific services. The agreement expires on December 1, 2002 and has a five year renewable term. The Chairman of the Company owns 50% of Windrush. Pursuant to this agreement, Windrush received $303 during the year ended November 30, 1998.

In July 1998, a subsidiary of the Company entered into a 15 year capital lease for an office, shop and warehouse in Edmonton, Alberta from a company in which a director of the Company is President and has a 25% interest. The annual lease payments are approximately $310. During the year ended November 30, 1998, this director was paid $38.5 for services rendered during the year.

In August 1998, the Board of Directors authorized the Company to loan up to $100 to each Director for the purpose of using the proceeds to purchase the Company's Common Shares in the open market. These loans are to be repaid in three years, bear interest at the rate of 9⅝% per annum, and are unsecured. The outstanding balance of these loans, including interest, as of November 30, 1998 was $360.

In September 1998, the Company loaned $100 to an executive officer of the Company, repayable over three years with prepayments from future bonuses, together with interest at the rate of 6% per annum.

During the year ended November 30, 1997, fees aggregating $522 were paid to a director in his capacity as an officer of the Company. Additionally, another director was paid $113 for services rendered during the year.

During fiscal 1997, the Company loaned $84 to the Chairman of the Board for the purpose of purchasing Common Shares of the Company in the open market. The loan increased his indebtedness to the Company. The loan was to mature on May 7, 1998, and the maturity was extended to May 31, 1999, bearing interest at the rate of 10.0% per annum and was collateralized by the purchased shares. The outstanding balance of the loan, including interest, as of November 30, 1998 was $688.

In May 1997, the Company loaned $305 at 8.5% interest per annum to a former officer of the Company, for the purchase of a home in connection with his relocation to the Company's headquarters in Houston, Texas. The loan was to mature in May 1998 and was extended to February 1, 2003, and is unsecured. The outstanding balance of the loan, including interest, as of November 30, 1998 was $320.

In June 1997, the Company loaned $60 to the Vice Chairman of the Board. The loan was to mature in June 1998, and was extended to May 31, 1999 bears interest at the rate of 8.5% per annum and is unsecured. The outstanding balance of the loans, including interest, as of November 30, 1998 was $65.

16. Income Taxes

Canada

Income tax expense varies from the amount that would be computed by applying the basic combined Canadian federal and provincial rate of 45.31%, as follows:

	1998	1997	1996
Basic rate applied to pre-tax income	$(18,072)	$ 8,542	$ 3,526
Reduction due to income taxes in other jurisdictions	4,624	(5,316)	(2,603)
Increase in valuation allowance	5,648	—	—
Other	183	(247)	(137)
Reduction of income taxes due to application of loss carryforwards	—	(2,507)	(786)
Effective Canadian tax expense	$ (7,617)	$ 472	$ —

The Company has Canadian non-capital income tax losses available to be carried forward in the amount of $9.6 million expiring through 2005. The Company also has capital losses available to be carried forward indefinitely in the amount of $5 million.

United States

The components of the provision for (recovery of) income taxes are as follows:

	1998	1997	1996
Federal	$(1,767)	$ 4,076	$(865)
State	(322)	360	50
Reduction of income taxes due to application of loss carryforwards	—	(1,710)	—
Benefits from previously unrecorded tax items	—	(1,529)	—
Other	—	151	6
	$(2,089)	$ 1,357	$(809)

The Company has income tax losses generated by its subsidiaries in the United States available to be carried forward in the amount of $6.6 million expiring through 2005.

	1998	1997	1996
Total tax expense (benefit) consisting of			
Current	$(2,419)	$ —	$(815)
Deferred	(7,287)	1,829	6
	$(9,706)	$1,829	$(809)

Deferred income taxes result from timing differences between the recording of income for accounting purposes and for income tax purposes and from the estimated future tax benefit from operating losses when, in the opinion of management, realization of such benefits is not virtually certain.

During 1998, the Company adopted the provisions of CICA Section 3465, "Income Taxes." CICA 3465. The Company has elected not to restate prior years and the impact on the current year is not material. Had the Company restated prior years, the prior year tax provision would have increased by approximately $1.0 million as certain net operating loss carryforwards which were utilized in 1997 would have been credit to goodwill and not to the income tax provision.

Additionally, goodwill amortization would have been reduced for each of the remaining years of its useful life. The annual impact is not material to the Company's results of operations.

17. Share Capital

Authorized Share Capital

The authorized share capital consists of unlimited Class A Preference shares and unlimited, no par value common shares.

Share Warrants

As of November 30, 1998, the Company had 3.1 million outstanding share warrants, which call for the issuance of one common share upon presentation of the warrant at issue prices ranging from $4.00 to $9.56. These warrants expire at various times through September, 2002.

Stock Options

In May 1998, the Stockholders amended the Company's 1995 Stock Option Plan (the "Plan"). Under the Plan, the Company is authorized to issue 3,504,369 options to purchase shares.

Information with regard to stock options is as follows:

	Shares	Option Price Range
Outstanding, November 30, 1995	495,700	$ —
Granted	460,313	$3.23–$ 9.76
Cancelled	(66,000)	$3.23–$ 5.69
Exercised	(336,850)	$1.79–$ 6.00
Outstanding, November 30, 1996	553,163	$1.76–$ 9.76
Granted	993,500	$6.67–$ 7.72
Cancelled	(143,888)	$1.76–$ 7.09
Exercised	(267,075)	$1.79–$ 7.72
Outstanding, November 30, 1997	1,135,900	$1.79–$ 9.76
Granted	715,500	$6.36–$10.76
Cancelled	(212,700)	$3.20–$ 6.00
Exercised	(112,600)	$1.66–$ 3.20
Outstanding, November 30, 1998	1,525,900	$1.66–$ 6.00
Options current exercisable	608,900	$1.66–$ 6.00

The weighted average fair value of options granted during 1998, 1997 and 1996 were $3.59, $6.42 and $3.04, respectively.

The weighted average exercise price and remaining term as of November 30, 1998 are $1.83 and five years, respectively.

18. Differences Between Canadian and United States Generally Accepted Accounting Principles and Practices

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian Basis") which differ in certain respects from those principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with accounting practices generally accepted in the United States ("U.S. Basis").

During 1998, the Company issued $120 million in Senior Notes (see note 12) and used certain of the proceeds to retire existing indebtedness. As a result, the Company recorded a charge of $2.4 million relating to the early extinguishment of debt. Under U.S. Basis, such amount would have been presented as an extraordinary item, net of tax. Additionally, the Company repurchased $2 million face amount of Senior Notes for approximately $1.43 million, resulting in a gain of $570. Under U.S. Basis, this gain would also be presented as an extraordinary item.

During 1997, the Company sold $18 million aggregate principal amount of convertible debentures (the "Debentures"). In connection with these Debentures, the Company issued approximately 1.7 million stock purchase warrants to the holders and as placement fees to third parties. Under Canadian Basis, the total amount allocated to the conversion feature was being charged to interest expense over ten years. All of these Debentures were converted during 1997 and the unamortized amount of $11.8 million was charged to equity. Had the U.S. Basis been followed, the intrinsic value of the conversion feature of approximately $3.5 million would have been charged to interest expense immediately as the Debentures contained a beneficial conversion feature on the date of issuance.

During June 1996, the Company acquired a 16% interest in USIS. This interest was accounted for under the cost method of accounting. Commencing on January 1, 1997, the Company began accounting for its investment in USIS under the equity method as its ownership percentage had increased to 36%. Under Canadian Basis, the change is accounted for prospectively. Under U.S. Basis, the Company would have recorded an adjustment to accrue its proportionate share (16%) of USIS's losses from the period when the Company first invested in USIS through the period when they commenced equity method accounting. The total amount of additional losses which the Company would have recorded is approximately $1.5 million.

Under Canadian Basis, income tax losses available to be carried forward are recognized only when there is virtual certainty that they will be realized. Under U.S. Basis, income tax losses available to be carried forward are recognized when it is more likely than not that they will be realized. For the years ended November 30, 1996 and 1995, there were no significant differences between these two methods.

Under U.S. Basis, utilization of pre-acquisition net operating losses should be credited to goodwill rather than as a reduction in the income tax provision, as is practice under Canadian Basis. Therefore, under U.S. Basis, the goodwill and income tax provision would have been adjusted by approximately $1.0 million.

The following is a reconciliation of net income under Canadian Basis to net income under U.S. Basis.

	1998		1997	
	Canadian Basis	U.S. Basis	Canadian Basis	U.S. Basis
Pre-tax income (loss)	$(39,885)	$(38,055)	$19,264	$14,264
Provision for (benefit of) income taxes	(9,706)	(9,011)	1,629	2,878
Income (loss) before extraordinary items	(30,179)	(29,044)	17,435	11,386
Loss from early extinguishment of debt	—	(1,135)	—	—
Net income (loss)	(30,179)	(30,179)	17,435	11,386
Net income (loss) per share before extraordinary items—Basic	(1.44)	(1.39)	1.08	.66
Extraordinary income (loss)	—	(0.05)	—	—
Net income (loss)	(1.44)	(1.44)	1.08	.66

Under U.S. Basis, primary and fully diluted earnings per share is calculated using the treasury stock method. The calculation of earnings per share for 1997 under U.S. Basis is as follows:

Net income	$11,386
Net income per share—Primary	$ 0.66
Net income per share—Fully diluted	$ 0.65
Weighted average number of shares	
Primary	17,142,519
Fully Diluted	18,784,330

SFAS No. 123 "Accounting for Stock Based Compensation," issued in October 1995, defines a fair value method of accounting for employee stock options. Under this fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the vesting period. SFAS No. 123 allows, and the Company has elected, to continue to measure compensation cost in accordance with APB No. 25 for purposes of the U.S. to Canadian GAAP reconciliation. Accordingly, the Company is providing the disclosures required by SFAS No. 123.

The pro forma net income and basic earnings per share amounts below have been derived using the Black-Scholes stock option pricing model with the following assumptions for each stock option grant during the respective year:

Assumptions	1998	1997	1996
Risk-free interest rates	5.5%	6.37%–6.63%	5.60%–5.75%
Expected life of stock options (years)	5	5	5
Expected volatility of common stock	55%	55%	55%
Expected annual dividends of stock options	0	0	0
Net income—as reported	$(30,179)	$17,435	$8,763
Net income—pro forma	$(31,100)	$17,191	$8,311
Basic earnings per share—as reported	$ (1.44)	$ 1.08	$ 0.81
Basic earnings per share—pro forma	$ (1.48)	$ 1.06	$ 0.77

The pro forma effects on net income and income per common share for fiscal 1998, 1997 and 1996 may not be representative of the pro forma effects Statements of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" may have in future years.

In June, 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which are both effective for years beginning after December 15, 1997. SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purposes financial statements. It further requires that an enterprise a) classify items of other comprehensive income by their nature in a financial statement and b) display the accumulated balance of other comprehensive income separately from retained earnings and

additional paid-in capital in the equity section of a statement of financial position. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. The adoption of SFAS 130 and 131 are for disclosure purposes only.

19. Retirement Plans

The Company has a profit-sharing plan (defined contribution) retirement plan covering substantially all employees, except employees who are members of a union who bargained separately for retirement benefits. Employees are eligible upon attaining the age twenty-one (21) and completing one (1) year of service. The amount of contribution to the plan is determined annually by the Board of Directors and may vary from zero to fifteen percent of covered compensation.

The Company, through its collective bargaining agreements with various unions, contributes to the unions' retirement plans. For the years ended November 30, 1998, 1997 and 1996, an expense of $2.7 million, $2.7 million and $1.5 million, respectively, was incurred for these retirement plans.

20. Convertible Debt

On January 24, 1997, the Company sold $15 million aggregate principal amount of 9.5% Convertible Debentures ("January Debentures") due January 24, 2007, together with 1,125,000 warrants to purchase the Company's common stock at a price of $9.56. In connection with this transaction, the Company issued 300,000 warrants to a placement agent and incurred costs of approximately $1.5 million.

On February 14, 1997, the Company sold $1 million aggregate principal amount of 9.5% Convertible Debentures ("February Debenture") due February 3, 2007, together with 71,429 warrants to purchase the Company's common stock at a price of $9.49. In connection with this transaction, the Company incurred costs of approximately $100.

On March 3, 1997, the Company sold $3 million aggregate principal amount of 9.5% Convertible Debentures ("March Debentures") due March 3, 2007, together with 225,000 warrants to purchase the Company's common stock at a price of $9.21. In connection with this transaction, the Company incurred costs of approximately $50.

The total proceeds were allocated between the warrants issued to the holders, the conversion feature and debt based on discounted cash flows and an effective interest rate of 12%. All of these debentures were converted into common shares during 1997 and the unamortized costs were charged to shareholders' equity upon conversion.

21. Litigation

At November 30, 1997, the Company had been involved in an arbitration with a customer whereby the customer claimed damages from the Company totaling $19.3 million consisting of delay damages and cost of completion. The Company counter claimed for $2.4 million for breach of subcontract and $10.0 million for the customer bad faith and intentional misconduct. On June 16, 1997, the arbitrator ruled in favor of the Company and awarded the Company $1.3 million net of costs of $1.1 million. The Company has received such amounts and has included them in its results of operations for 1997.

At November 30, 1998, there were various claims and disputes incidental to the business. The Company believes that the disposition of all such claims and disputes, individually or in the aggregate, should not have a material adverse affect upon the Company's financial position, results of operations or cash flows.

22. Financial Statements

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and trade accounts receivable. At November 30, 1998, and 1997, the Company had notes receivable balances of $22,585 and $46,335, respectively, with various entities or persons as described in Note 4 to Consolidated Financial Statements. Although some of the notes are collateralized or partially collateralized, the ultimate collectibility is dependent on the financial conditions of the various debtors. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer based and their diverse industries and geographic areas. The Company has write offs, net of recoveries of $707 in 1998, $466 in 1997 and $286 in 1996.

Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these items. The carrying amounts of long-term debt approximate fair value because the interest rates on these instruments change with market interest rates.

23. Segments of the Business

The Company operates in Canada and the United States in three primary industry segments: (1) Environmental Remediation Services which involves asbestos removal, insulation and other environmental services, (2) Industrial Support Services which involves the repair, maintenance and modification of boilers, pressure vessels and tubing used in industrial facilities and the provision of engineering services, (3) Specialty Fabrication Services which involves construction of high-quality custom steel and alloy products and (4) Construction Management Services which involves tenant improvement, renovation, addition and design services to a national network of retailers. It is the Company's policy to price intersegment contracts on an equivalent basis to that used for pricing external contracts. The following is a summary of selected data for these business segments:

	Environmental Remediation Services	Industrial Support Services	Specialty Fabrication Services	Construction Management Services	Total Consolidated
1998					
Contract revenue	$ 6,227	$148,138	$116,286	$29,138	$299,789
Operating income (loss)	(851)	(18,125)	(10,258)	353	(28,881)
Depreciation and amortization	842	3,092	806	176	4,916
Capital expenditures during the year	816	3,482	21,109	256	25,663
Identifiable assets	6,640	125,865	108,742	9,136	250,383
1997					
Contract revenue	$12,125	$147,424	$ 51,562	$ 9,367	$220,478
Operating income (loss)	(1,437)	11,768	10,472	168	20,971
Depreciation and amortization	923	3,336	990	133	5,382
Capital expenditures during the year	312	1,871	1,536	—	3,719
Identifiable assets	7,375	133,390	61,020	10,001	211,786
1996					
Contract revenue	$18,489	$ 94,584	$ 6,456	$ —	$119,529
Operating income	2,885	3,522	3,073	—	9,480
Depreciation and amortization	—	1,063	470	—	2,232
Capital expenditures during the year	516	1,336	6,155	—	8,007
Identifiable assets	22,988	29,121	19,668	—	71,777

The following table provides information with respect to the geographic segmentation of the Company's business.

	Canada	United States	Total Consolidated
1998			
Contract revenue	$123,053	$176,736	$299,789
Operating income	(6,123)	(22,758)	(28,881)
Depreciation and amortization	480	4,436	4,916
Capital expenditures during the year	22,962	2,701	25,663
Identifiable assets	172,504	77,879	250,383
1997			
Contract revenue	$ 50,835	$169,643	$220,478
Operating income	6,503	14,468	20,971
Depreciation and amortization	1,223	4,159	5,382
Capital expenditures during the year	124	3,595	3,719
Identifiable assets	122,472	89,314	211,786
1996			
Contract revenue	$ 6,509	$113,020	$119,529
Operating income	256	9,224	9,480
Depreciation and amortization	166	2,066	2,232
Capital expenditures during the year	6,151	1,856	8,007
Identifiable assets	20,988	50,789	71,777

24. Significant Transactions

In November 1997, the Company sold its 50% ownership in MART to a third party for $14.0 million, payable quarterly over five years with interest at 10% per annum. During fiscal 1997, two of the Company's subsidiaries (SRS and United Eco) sold equipment and provided services to MART. SRS sold to MART equipment for $4.0 million and United Eco provided construction, maintenance and operation services for approximately $6.6 million. MART is a state of the art thermal treatment facility which treat soils, sediments and other materials contaminated with hazardous and non-hazardous chemicals.

The 1997 Consolidated Statement of Operations includes revenue and direct costs of $24.6 million and $14.4 million, respectively, resulting from these transactions.

25. Guarantor Financial Statement Information

Set forth below are condensed consolidating financial statements of the Company (Parent) the Guarantor Subsidiaries and the Company on a consolidated basis.

Consolidating Balance Sheet at November 30, 1998

(United States Dollars in thousands)

	Company (Parent)	Guarantor Subsidiaries	Eliminations	Consolidated
Current Assets				
Cash	$ 11,283	$ 10,538	$ —	$ 21,821
Accounts receivable	767	50,026	—	50,793
Current portion of notes receivable	1,916	3,164	—	5,080
Amounts receivable from subsidiaries	105,093	(105,093)	—	—
Costs and estimated earnings in excess of billings	—	11,202	—	11,202
Inventory	—	23,080	—	23,080
Refundable income taxes	2,419	—	—	2,419
Deferred income taxes	8,142	1,322	—	9,464
Prepaid expenses and other current assets	1,003	3,424	—	4,427
Total Current Assets	130,623	(2,337)	—	128,286
Property, Plant and Equipment, net	881	53,954	—	54,835
Other Assets				
Goodwill	—	30,767	—	30,767
Notes receivable	17,244	260	—	17,504
Investments	54,635	1,450	(42,230)	13,855
Other assets	4,493	643	—	5,136
Total Other Assets	76,372	33,120	(42,230)	67,262
Total Assets	$207,876	$ 84,737	$(42,230)	$250,383
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 5,482	$ 27,102	$ —	$ 32,584
Notes payable	—	—	—	—
Current portion of long-term debt	—	630	—	630
Billings in excess of costs and estimated earnings	—	3,834	—	3,834
Total Current Liabilities	5,482	31,566	—	37,048
Long Term Liabilities				
Senior notes	118,000	—	—	118,000
Long-term debt	70	2,619	—	2,689
Deferred income tax liability	191	1,143	—	1,334
Other liabilities	—	1,074	—	1,074
Total Long-Term Liabilities	118,261	4,836	—	123,097
Total Liabilities	123,743	36,402	—	160,145
Shareholders' Equity				
Share capital	89,854	19	(19)	89,854
Contributed surplus	2,845	42,211	(42,211)	2,845
Cumulative foreign exchange	(4,291)	1,821	—	(2,470)
Retained earnings	(4,275)	4,284	—	9
Total Shareholders' Equity	84,133	48,335	(42,230)	90,238
Total Liabilities and Shareholders' Equity	$207,876	$ 84,737	$(42,230)	$250,383

Consolidating Statement of Income For the Year Ended November 30, 1998

(United States Dollars in thousands) (Unaudited)

	Company (Parent)	Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ —	$299,789	$ —	$299,789
Cost and Expenses				
Direct costs of revenue	—	253,638	—	253,638
Selling, general and administrative expenses	4,107	38,530	—	42,637
Asset impairment and severance charge	19,199	8,280	—	27,479
Depreciation and amortization	119	4,797	—	4,916
Total operating costs	23,425	305,245	—	328,670
Operating Income (Loss)	(23,425)	(5,456)	—	(28,881)
Other Income (Expense)				
Interest expense, net	127	(9,633)	—	(9,506)
Foreign exchange income	332	—	—	332
Loss on early extinguishment of debt	(1,830)	—	—	(1,830)
Total other income (expense)	(1,371)	(9,633)	—	(11,004)
Income Before Provision for (Recovery of) Income Taxes	(24,796)	(15,089)	—	(39,885)
Provision for (Recovery of) Income Tax	(9,706)	—	—	(9,706)
Net (Loss)	$ (15,090)	$ (15,089)	$ —	$ (30,179)

Consolidating Statement of Changes in Financial Position For the Year Ended November 30, 1998

(United States Dollars in thousands)

	Company (Parent)	Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Net income	$ (15,090)	$(15,089)	$ —	$(30,179)
Adjustments to reconcile net income to net cash provided by operating activities:				
Asset impairments	28,629	(1,489)	—	27,140
Loss on early extinguishment of debt	2,400	—	—	2,400
Gain on repurchase of senior notes	(570)	—	—	(570)
Depreciation and amortization	119	4,797	—	4,916
Change in deferred income taxes	(6,334)	(953)	—	(7,287)
Change in refundable income taxes	(2,419)	—	—	(2,419)
Change in accounts receivable	603	(1,047)	—	(444)
Change in costs and estimated earnings in excess of billings	—	1,943	—	1,943
Change in inventory	—	(5,001)	—	(5,001)
Change in prepaid expenses	1,439	(1,904)	—	(465)
Change in other assets	(3,320)	1,274	—	(2,046)
Change in notes receivable	3,549	—	—	3,549
Change in accounts payable	4,466	(281)	—	4,185
Change in billings in excess of costs and estimated earnings	—	484	—	484
Change in deferred gain	—	(12)	—	(12)
Net cash provided by (used in) operating activities	13,472	(17,278)	—	(3,806)
Cash Flows from Investing Activities:				
Capital expenditures	(162)	(11,632)	—	(11,794)
Proceeds from notes receivable	8,425	350	—	8,775
Disbursements for notes receivable	(2,195)	(1,625)	—	(3,820)
Increase in investment	(18,898)	2,448	—	(16,450)
Net cash used in investing activities	(12,830)	(10,459)	—	(23,289)
Cash Flows from Financing Activities:				
Proceeds from senior notes	116,139	—	—	116,139
Proceeds from notes payable	5,700	—	—	5,700
Proceeds from long-term debt	30	468	—	498
Disbursements/receipts on intercompany debt	(35,720)	21,116	—	(14,604)
Principal payments on notes payable	(14,200)	(44,868)	—	(59,068)
Principal payments on long-term debt	(58,515)	58,515	—	—
Repurchase of senior notes	(1,430)	—	—	(1,430)
Debt issuance costs	—	—	—	—
Stock issuance costs	(89)	—	—	(89)
Issuance of common stock	1,470	—	—	1,470
Net cash provided by financing activities	13,385	35,231	—	48,616
Effect of Foreign Exchange Fluctuations on Cash	(2,890)	1,931	—	(959)
Net Increase in Cash	11,137	9,425	—	20,562
Cash at Beginning of Period	146	1,113	—	1,259
Cash at End of Period	$ 11,283	$ 10,538	$ —	$ 21,821
Supplemental disclosure of noncash investing and financing activities				
Acquisition of subsidiaries through issuance of stock	$ 1,526	$ —	$ —	$ 1,526
Acquisition of assets through issuance of stock	8,910	—	—	8,910

Consolidating Balance Sheet at November 30, 1997

(United States Dollars in thousands)

	Company (Parent)	Guarantor Subsidiaries	Eliminations	Consolidated
Assets				
Current Assets				
Cash	$ 146	$ 1,113	$ —	$ 1,259
Accounts receivable	1,370	48,979	—	50,349
Amounts receivable from subsidiaries	57,768	(57,768)	—	—
Current portion of notes receivable	15,573	2,184	—	17,757
Costs and estimated earnings in excess of billings	—	13,145	—	13,145
Inventory	—	18,079	—	18,079
Deferred income taxes	855	278	—	1,133
Prepaid expenses and other current assets	5,398	1,522	—	6,920
Total Current Assets	81,110	27,532	—	108,642
Property, Plant and Equipment, net	837	32,186	—	33,023
Other Assets				
Goodwill	—	30,484	—	30,484
Notes receivable	28,578	—	—	28,578
Investments	47,474	2,372	(40,704)	9,142
Other assets	—	1,917	—	1,917
Total Other Assets	76,052	34,773	(40,704)	70,121
Total Assets	$ 157,999	$ 94,491	$(40,704)	$211,786
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 1,017	$ 27,383	$ —	$ 28,400
Notes payable	8,334	570	—	8,904
Current portion of long-term debt	8,081	—	—	8,081
Billings in excess of costs and estimated earnings	—	3,350	—	3,350
Total Current Liabilities	17,432	31,303	—	48,735
Long-Term Liabilities				
Long-term debt	50,639	1,083	—	51,722
Deferred income tax liability	2,092	1,052	—	3,144
Other liabilities	—	1,086	—	1,086
Total Long-Term Liabilities	52,731	3,221	—	55,952
Total Liabilities	70,163	34,524	—	104,687
Commitments and Contingencies				
Shareholders' Equity				
Share capital	75,577	19	(19)	75,577
Contributed surplus	2,845	40,685	(40,685)	2,845
Cumulative foreign exchange	(1,401)	(110)	—	(1,511)
Retained earnings	(10,815)	19,373	—	30,188
Total Shareholders' Equity	87,836	59,967	(40,704)	107,099
Total Liabilities and Shareholders' Equity	$ 157,999	$ 94,491	$(40,704)	$211,786

Consolidating Statement of Income For the Year Ended November 30, 1997

(United States Dollars in thousands)

	Company (Parent)	Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 20,952	$199,526	$ —	$220,478
Cost and Expenses				
Direct costs of revenue	9,858	153,024	—	162,882
Selling, general and administrative expenses	1,989	29,254	—	31,243
Interest expense, net	2,053	2,893	—	4,946
Depreciation and amortization	484	4,898	—	5,382
Gain on sale of assets and subsidiaries	(2,459)	(223)	—	(2,682)
Foreign exchange income	(545)	(12)	—	(557)
	11,380	189,834	—	201,214
Income Before Provision for Income Taxes	9,572	9,692	—	19,264
Provision for Income Tax	2,100	(271)	—	1,829
Net Income	$ 7,472	$ 9,963	$ —	$ 17,435

Consolidating Statement of Changes in Financial Position For the Year Ended November 30, 1997

(United States Dollars in thousands)

	Company (Parent)	Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Net income	$ 7,472	$ 9,963	$ —	$ 17,435
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on sale of assets and subsidiaries	(2,459)	(223)	—	(2,682)
Depreciation and amortization	484	4,898	—	5,382
Change in deferred income taxes	2,092	(263)	—	1,829
Noncash income, net	648	(323)	—	325
Change in accounts receivable	(1,032)	(14,900)	—	(15,932)
Change in notes receivable	(14,000)	—	—	(14,000)
Change in costs and estimated earnings in excess of billings	—	(7,824)	—	(7,824)
Change in inventory	—	106	—	106
Change in prepaid expenses	2,979	(1,555)	—	1,424
Change in accounts payable and accrued liabilities	(372)	(4,151)	—	(4,523)
Change in billings in excess of costs and estimated earnings	—	(458)	—	(458)
Net cash provided by (used in) operating activities	(4,188)	(14,730)	—	(18,918)
Cash Flows from Investing Activities:				
Capital expenditures	(461)	(2,673)	—	(3,134)
Proceeds from sales of equipment	—	3,448	—	3,448
Acquisition of business, net of cash acquired	(10,481)	(12)	—	(10,493)
Proceeds from notes receivable	775	221	—	996
Disbursements for notes receivable	(5,436)	3,342	—	(2,094)
Increase in investment	(1,277)	—	—	(1,277)
Net cash provided by (used in) investing activities	(16,880)	4,326	—	(12,554)
Cash Flows from Financing Activities:				
Proceeds from notes payable	33,500	—	—	33,500
Proceeds from long-term debt	58,500	—	—	58,500
Principal payments on notes payable	(15,834)	(37,362)	—	(53,196)
Principal payments on long-term debt	—	(7,607)	—	(7,607)
Proceeds from sales/leaseback	—	4,000	—	4,000
Disbursements/receipts on intercompany debt	(50,762)	50,762	—	—
Debt issuance costs	(1,917)	—	—	(1,917)
Debenture issuance costs	—	—	—	—
Stock issuance costs	(2,479)	—	—	(2,479)
Issuance of common stock	1,613	—	—	1,613
Net cash provided by financing activities	22,621	9,793	—	32,414
Effect of Foreign Exchange Fluctuations on Cash	(1,401)	1,401	—	—
Net Increase in Cash	152	790	—	942
Cash at Beginning of Period	(6)	323	—	317
Cash at End of Period	$ 146	$ 1,113	$ —	$ 1,259
Supplemental disclosure of cash flow information				
Cash payments for interest	$ 1,788	$ 2,930	$ —	$ 4,718
Cash payments for income taxes	—	281	—	281
Supplemental disclosure of noncash investing and financing activities				
Notes receivable issued for sale of subsidiaries	$ 11,000	$ —	$ —	$ 11,000
Notes receivable increase to USIS through stock issuance	7,784	—	—	7,784
Acquisition of subsidiaries through issuance of stock	5,296	—	—	5,296
Debentures converted to stock	21,500	—	—	21,500
Transfer of assets to/from parent and subsidiaries	(26)	26	—	—
Acquisition of equipment for notes payable	—	58	—	58
Transfer of investment from subsidiary to parent	1,000	(1,000)	—	—

Public Market for Common Shares The Company's Common Shares are traded on The Toronto Stock Exchange and the Nasdaq National Market under the trading symbols ECX and ECGOF, respectively. The Company's Common Shares were traded on the American Stock Exchange under the symbol ECG until November 16, 1995 when the Company delisted from such exchange and listed its Common Shares on the Nasdaq National Market. As of January 31, 1999, there were 694 shareholders of record. The Company believes that the number of beneficial holders is significantly greater than the number of record holders as a large number of shares are held of record in nominee or broker names.

The following table provides the quarterly high ask and low bid prices for the Company's Common Shares on the Nasdaq National Market and The Toronto Stock Exchange for the two years ended November 30, 1998.

	Nasdaq National Market (US$)		Toronto Stock Stock Exchange (CDN$)	
	High Ask	Low Bid	High	Low
Fiscal year ended November 30, 1998				
First quarter	$12.25	$ 8.69	$17.75	$12.25
Second quarter	11.25	6.75	16.00	10.00
Third quarter	8.00	2.44	11.40	4.00
Fourth quarter	3.19	1.81	4.90	2.90
Fiscal year ended November 30, 1997				
First quarter	9.43	6.68	12.60	9.10
Second quarter	8.50	6.75	11.50	9.70
Third quarter	10.18	5.87	14.05	8.25
Fourth quarter	14.75	9.12	20.05	12.95

The Company is subject to covenants in its Indenture which restrict or limit the payment of cash dividends on its Common Shares. Notwithstanding such restrictions and limitations, it is the Company's present policy to retain future earnings for use in its business.

Private Placements of Common Shares During the fourth quarter of fiscal 1998, the Company did not effect any private placements of its Common Shares.

To the Shareholders and Directors of
American Eco Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and changes in financial position present fairly, in all material respects, the financial position of American Eco Corporation and subsidiaries at November 30, 1998 and 1997, and the result of their operations and their cash flows for the two years then ended in conformity with generally accepted accounting principles of Canada. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 of the Notes to the Consolidated Financial Statements, the Company changed its method of accounting for income taxes in 1998.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Miami, Florida
February 23, 1999

To the Board of Directors and Shareholders of
American Eco Corporation

We have audited the accompanying consolidated statements of operations, shareholders' equity and changes in financial position of American Eco Corporation for the year ended November 30, 1996, which as described in Note 16, have been prepared on the basis of accounting principles generally accepted in Canada. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States (and in Canada). U.S. standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Eco Corporation as of November 30, 1996, and the consolidated results of its operations and changes in financial position for the year then ended in conformity with generally accepted accounting principles in Canada.

Karlins Arnold & Corbitt, P.C.

Karlins Arnold & Corbitt, P.C.
(successor to Karlins Fuller Arnold & Klodosky P.C.)

Houston, Texas
January 31, 1997

Board of Directors

J.C. Pennie
Chairman, American Eco Corporation
President, Windrush Corporation
Toronto, Ontario, Canada

Michael E. McGinnis
President and Chief Executive Officer
American Eco Corporation
Houston, Texas

*Barry Cracower**
President, Pharmx Rexall Drug Stores, Ltd.
Concord, Ontario, Canada

*William A. Dimma**
Chairman, Swiss Reinsurance Company Canada
Toronto, Ontario, Canada

Hon. Donald R. Getty
President, Sunnybank Investments, Ltd.
Edmonton, Alberta, Canada

*Audit Committee Member

Executive Management

Michael E. McGinnis
President and Chief Executive Officer

Matthew D. Hill
Senior Vice President, Operations

Corporate Management

Joseph D. DeFranco
VP, Western Region, N.A.
Div. President, Separation and Recovery Systems, Inc.

Besim Halef
Vice President, Marketing
CEO, MM Industra Limited

Michael Fugitt
Division President, C.A. Turner Construction Company

Andrew S. Hamilton
Division President, MM Industra Limited

Willi Hamm
Division President, Industra Service Corporation

Cecil Hodgkinson
Division President, Action Contract Services, Inc.

John Hoyle
Division President, United Eco Systems

C.N. Jones
Division President
Specialty Management Group/dba (CCG)

David R. Krache
Division President, Chempower, Inc.

Advisors

Independent Auditors
PricewaterhouseCoopers LLP
Certified Public Accountants
Miami, Florida

Legal Counsel
Cassels, Brock & Blackwell
Barristers & Solicitors
Toronto, Ontario, Canada

Thelen Reid & Priest, L.L.P.
New York, New York

Information

Securities Trading
American Eco Corporation's common stock is traded on the Toronto Stock Exchange under the symbol ECX and on the Nasdaq® under the symbol ECGOF. The company is listed on the Chicago Board Options Exchange as EOQ.

Transfer Agent and Registrar
Communications regarding stock transfers, lost certificates, or address changes should be directed to:
CBIC Mellon Trust Company
393 University Avenue
Toronto, Ontario, Canada M5G 2M7
(800) 387-0825 (416) 813-4555 Fax

Shareholder Inquiries
Investor Relations
American Eco Corporation
11011 Jones Road
Houston, Texas 77070
(281) 774-7000
(281) 774-7004 Fax
www.americaneco.com

Annual Shareholders' Meeting
The Annual Shareholders' Meeting will be held May 20, 1999, 4:00 p.m., at:
The Royal York Hotel
100 Front Street West
Toronto, Ontario, Canada M5J 1E3

Designed by Curran & Connors, Inc. / www.curran-connors.com

American Eco Corporation

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